
Government of the District of Columbia



Department of Insurance, Securities and Banking

Testimony of
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Bill 18-773, Annual Financial Reporting Modernization

Amendment Act

Committee on Public Services and Consumer Affairs
Muriel Bowser, Chairperson
Council of the District of Columbia

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John A. Wilson Building
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Good Morning Chairperson Bowser, Members of the Committee on Public Services and Consumer Affairs, and Committee Staff. I am Philip Barlow, Associate Commissioner for Insurance of the Department of Insurance, Securities and Banking (“Department” or “DISB”). I am here today on behalf of Commissioner Gennet Purcell. Thank you for providing the Department with the opportunity to present testimony on Bill 18-773, Annual Financial Reporting Modernization Amendment Act (“Bill”)

In 2002, Congress enacted the Sarbanes-Oxley Act to protect investors by improving the accuracy and reliability of corporate disclosures. After the enactment of Sarbanes-Oxley, a National Association of Insurance Commissioners (“NAIC”) working group reviewed the disclosure provisions of that law to see how the underlying principals of those requirements could be applied to mutual and privately held insurers, which fell outside the requirements of Sarbanes-Oxley. The vehicle for applying Sarbanes-Oxley like rules for insurers is the Annual Financial Reporting Model Regulation, commonly referred to as the “Model Audit Rule”. The changes proposed in Bill 18-773 are changes made to the Model Audit Rule as a result of the NAIC working group’s review.

Bill 18-773 would amend the District’s annual financial reporting requirements and would enhance the surveillance of the financial condition of insurance companies. Specifically, the Bill will strengthen the Department’s financial solvency monitoring process by: (1) requiring companies to establish audit committees with certain enumerated responsibilities; (2) prohibiting insurers from indemnifying their independent auditors; (3) prohibiting auditors from providing certain non-audit services to insurers; (4) directing

auditors and accountants to communicate to the Department certain internal control related matters in the annual audit; (5) proscribing certain conduct of officers and directors in connection with the preparation of certain required financial reports and documents; and (6) requiring management to file reports with the Department of internal control over financial reporting, among other things.

The last requirement was the most controversial of the provisions. As a result of discussions between regulators, industry representatives, certified public accountants, and consumer representatives, the Model Audit Rule requires reports only for insurers writing in excess of \$500 million of premium annually. This threshold will alleviate a significant expenditure for small insurers. Instead, the requirement will only apply to GHMSI and CareFirst BlueChoice as they are the only District of Columbia domestic insurers with premiums in excess of the \$500 million premium threshold. It is important to note that after three years of sometimes heated discussion during the development of the revisions to the Model Audit Rule, all of the groups involved in the discussion were in agreement on the final changes adopted by the NAIC.

The Model Audit Rule is an NAIC Accreditation Standard with an effective date of January 1, 2010. The effective date for this requirement was shorter than the typical implementation of an accreditation requirement to facilitate a uniform adoption of the requirements, so that insurers are operating under a single standard throughout the United States. Many of the significant requirements of the Model Audit Rule are effective for the reporting period ending December 31, 2010. In addition to the District of Columbia, there

are two other states that have yet to adopt the revisions to the Model Audit Rule - Texas and Florida - and both are on target for adoption by the end of the year. Thus, the Department hopes that the Model Audit Rule can be enacted as quickly as possible.

The NAIC Accreditation process reviews each jurisdiction's adherence to the requirements every five years and the District of Columbia will undergo its accreditation review the week of September 27, 2010, and the NAIC vote for the District's accreditation will come during the NAIC meeting scheduled for October 18-21, 2010. It will be helpful for our accreditation review if we are able to identify an anticipated effective date for the Annual Financial Reporting Modernization Amendment Act during our review or the upcoming NAIC meeting.

This concludes my testimony. Thank you again for the opportunity to present the Department's views and I will be happy to answer any questions.